MULTIMEDIA UNIVERSITY

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FINAL EXAM

TRIMESTER 1, 2022/2023 (TERM ID 2210 & TERM ID 2215)

DFN5214 – FUNDAMENTAL OF FINANCE II

(All sections / Groups)

17TH FEBRUARY 2023
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9)** printed pages (including cover page) with:
   Section A: Twenty (20) multiple choice questions (30%)
   Section B: Three (3) working problems (70%)

2. Answer **ALL** questions. Marks are shown at the end of each question.

3. Please write all your answers in the MCQ test sheet and Answer Booklet provided.

Section A: 20 Multiple Choice Questions (30 marks)

1. _____ leverage is concerned with the relationship between sales revenues and earnings before interest and taxes.
   a. Financial
   b. Operating
   c. Variable
   d. Total

2. One function of breakeven analysis is to
   a. create profits.
   b. describe leverage.
   c. evaluate the profitability of various sales levels.
   d. determine the amount of financing needed by the firm.

3. Accounts receivable financing is the term used to describe which of the following types of loans involve either the assignment or the factoring of a firm's accounts receivables?
   a. secured short-term
   b. unsecured short-term
   c. secured long-term
   d. unsecured long-term

4. Which one of the following industries is most apt to have the shortest cash cycle?
   a. electric utility company
   b. airplane manufacturer
   c. fast-food restaurant
   d. furniture store

5. A firm has determined it can issue preferred stock at RM75 per share par value. The stock will pay a RM10 annual dividend. The cost of issuing and selling the stock is RM3 per share. The firm's cost of preferred stock is _____.
   a. 7.2 percent
   b. 13.3 percent
   c. 13.9 percent
   d. 12.8 percent

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6. When lower units of a foreign currency are required to buy one dollar, the currency is said to have _____ with respect to the dollar.
   a. appreciated
   b. depreciated
   c. consolidated
   d. remained fixed

7. The risk attached to international cash flows are all of the following EXCEPT
   a. business and financial risks.
   b. inflation and foreign exchange risks.
   c. political risks.
   d. risk of local management.

8. The cost of giving up a cash discount on a credit purchase is
   a. added on to the price of the goods.
   b. deducted from the price of the goods
   c. the implied interest rate paid in order to delay payment for an additional number of days.
   d. the true purchase price of the goods.

9. The cost of giving up a cash discount under the terms of sale 1/10 net 60 (assume a 360-day year) is.
   a. 7.3 percent.
   b. 6.1 percent.
   c. 14.7 percent.
   d. 12.2 percent.

10. A firm purchased goods with a purchase price of RM1,000 and credit terms of 1/10 net 30. The firm paid for these goods on the 5th day after the date of sale. The firm must pay _____ for the goods.
    a. RM990
    b. RM900
    c. RM1,000
    d. RM100

11. If the exchange rate between the U.S. dollar and the Euro is $1.20 per Euro and the annual rate of inflation is 5 percent in the United States and 10 percent in Europe, what will be U.S. dollar per Euro exchange rate in one year?
    a. 1.257
    b. 0.8730
    c. 1.145
    d. 0.7955

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12. 1/15 net 30 date of invoice translates as
    a. a 1 percent cash discount may be taken if paid in 15 days; if no cash discount is taken, the balance is due in 30 days after the middle of the month.
    b. a 1 percent cash discount may be taken if paid in 15 days; if no cash discount is taken, the balance is due 30 days after the invoice date.
    c. a 1 percent cash discount may be taken if paid in 15 days; if no cash discount is taken, the balance is due 30 days after the end of the month.
    d. a 1 percent discount may be taken on 15 percent of the purchase if the account is paid within 30 days after the end of the month.

13. The exchange rate is the
    a. total yearly amount of money changed from one country's currency to another country's currency.
    b. total monetary value of exports minus imports.
    c. amount of country's currency which can exchanged for one ounce of gold.
    d. price of one country's currency in terms of another country's currency.

14. The residual theory of dividends suggests that dividends are _____ to the value of the firm.
    a. residual
    b. relevant
    c. irrelevant
    d. integral

15. Forward exchange rates are useful for those who wish to
    a. Protect themselves from the risk that the exchange rate will change before a transaction is completed.
    b. Gamble that a currency will rise in value.
    c. Gamble that a currency will fall in value.
    d. All of the above.

16. Modigliani and Miller, recognizing that dividends do somehow affect stock prices, suggest that positive effects of dividend increases are attributable
    a. directly to the dividend policy.
    b. directly to the optimal capital structure.
    c. not to the informational content but to the consistency in the payment of dividends.
    d. not to the dividend itself but to the informational content of the dividends with respect to future earnings.

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17. Financing that arises from the normal operations of the firm is said to be
    a. expected.
    b. accrued.
    c. spontaneous.
    d. Payable

18. At a firm's quarterly dividend meeting held on December 5, the directors declared a RM1.50 per share cash dividend to be paid to the holders of record on Monday, January 1. Before the dividend was declared, the firm's accumulated retained earnings balance and cash balance were RM1,280,000 and RM30,000 respectively. The firm has 10,000 shares of common stock outstanding. On January 2, the cash, dividends payable, and retained earnings accounts had balances of
    a. RM15,000, RM0, and RM1,265,000, respectively.
    b. RM30,000, RM15,000, and RM1,280,000, respectively.
    c. RM30,000, RM0, and RM1,265,000, respectively.
    d. RM15,000, RM0, and RM1,280,000, respectively.

19. Mr. R. owns 20,000 shares of ABC Corporation stock. The company is planning to issue a stock dividend. Before the dividend Mr. R. owned 10 percent of the outstanding stock, which had a market value of RM200,000, or RM10 per share. Upon receiving the 10 percent stock dividend, the value of his shares is
    a. RM220,000.
    b. RM210,000.
    c. RM200,000.
    d. greater, but cannot be determined

20. A firm has fixed operating costs of RM525,000, of which RM125,000 is depreciation expense. The firm's sales price per unit is RM35 and its variable cost per unit is RM22.50. The firm's cash operating breakeven point in units is
    a. 23,330.
    b. 32,000.
    c. 42,000.
    d. 52,000.

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SECTION B (70 Marks)

Question 1

a) Kenchana Bhd is concerned about managing its operating assets and liabilities efficiently. Inventories have an average age of 90 days, and accounts receivable have an average age of 45 days. Accounts payable are paid approximately 45 days after they arise. The firm has annual sales of RM36 million, its cost of goods sold represents 75 percent of sales, and its purchases represent 70 percent of cost of goods sold. Assume a 365-day year.

i. List five potential sources of cash and five potential uses of cash. **(5 marks)**

ii. Define operating cycle (OC) and cash conversion cycle (CCC). **(4 marks)**

iii. Compute the firm's operating cycle (OC) of Kenchana Bhd. **(4 marks)**

iv. Compute the firm's cash conversion cycle (CCC) of Kenchana Bhd. **(4 marks)**

v. Explain how the management of Kenchana Bhd might be able to reduce the amount of total resources invested in the CCC. **(3 marks)**

b) Speedy Electric Incorporation is a distributor of electric motors. The firm projects product demand next year of 25,000 units. It costs RM320 to place an order with suppliers. Management has determined that the carrying cost is RM16. Based on the information, compute the economic order quantity for Speedy Electric Incorporation. **(5 marks)**

(TOTAL: 25 MARKS)

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Question 2

a) Describe the cost of capital and it's important to the business. **(5 marks)**

b) Kaya Holding is determining its cost of capital based on the following information:

1. 15 years bond with 10% coupon was issued 10 years ago and its currently selling at RM980. The firm's tax bracket is 30% and floatation cost is 5% of par value. The par value is RM1000.

2. The ordinary share of the company is currently selling at RM4 per share. The expected dividend for next year is RM0.30 and it is expected to grow at a constant rate of 8% every year.

3. The current price of its preferred share is RM1.20 Per share with the annual dividend payment of RM0.20.

4. A firm has determined its optimal capital structure which is composed of the following sources and percentage of financing.

Source of Capital	Percentage of Financing
Long-term debt	30%
Preferred stock	20%
Common stock equity	50%

Required:

i. Using either the approximation method or financial calculator, compute the firm's after-tax cost of debt. **(4 marks)**

ii. Compute the firm's cost of preferred share. **(3 marks)**

iii. Compute the firm's cost of common share. **(4 marks)**

iv. Compute the firm's weighted average cost of capital (WACC). **(4 marks)**

(TOTAL: 20 MARKS)

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Question 3

a) Tangerine Berhad currently has 420,000 shares of stock outstanding that sell for RM94 per share. The company is considering a five-for-three stock split.

i. Assuming no market imperfections or tax effects exist, compute the new share price and the new number of shares outstanding after the stock split. **(6 marks)**

ii. Explain the differences between stock dividend and stock split. **(5 marks)**

b) Chantek Inc. has sales of 30,000 units, fixed operating costs of RM72,000, variable operating costs of RM6.75 per unit and selling prices of RM9.75 per unit.

i. Compute the operating breakeven point in units. **(5 marks)**

ii. Compute the operating breakeven point in Ringgit Malaysia (RM). **(4 marks)**

iii. Compute the degree of operating leverage (DOL). **(5 marks)**

(TOTAL: 25 MARKS)

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DFN5124 FUNDAMENTAL OF FINANCE
Selected Formulae

1. $WACC = (w_i\, r_i) + (w_p\, r_p) + (w_s\, r_s)$

2. $r_d = \dfrac{I + \dfrac{Par\ Value - N_d}{n}}{\dfrac{N_d + Par\ Value}{2}}$

3. $r_{d\ \text{after tax}} = r_d\ (1\text{-T})$

4. $r_s = R_F + [b \times (r_m - R_F)]$

5. $OC = AAI + ACP$

6. $CCC = OC - APP$

7. $EOQ = \sqrt{\dfrac{2\,X\,S\,X\,O}{C}}$

8. $DOL = \dfrac{Q(P - VC)}{Q(P - VC) - FC}$

9. $DFL = \dfrac{EBIT}{EBIT - I - \left(PD \times \frac{1}{1-T}\right)}$

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